

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15 AID-05

SAJ-01 TRSE-00 OMB-01 EB-07 /080 W

----- 085186

R 210312Z JUL 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 4043

INFO AMEMBASSY SINGAPORE

USDOC WASHDC

UNCLAS SECTION 1 OF 2 KUALA LUMPUR 4176

E.O. 11652: N/A

TAGS: ECON, EINV, EGEN, MY

SUBJECT: PRIME MINISTER PRESENTS THIRD MALAYSIA PLAN TO PARLIAMENT

REF: KUALA LUMPUR 3985

1. SUMMARY: IN SPEECH DELIVERED TO THE DEWAN RAKYAT (THE LOWER HOUSE OF PARLIAMENT) ON JULY 19, PRIME MINISTER HUSSEIN ONN PRESENTED THE THIRD MALAYSIA PLAN (TMP) 1976-80 FOR CONSIDERATION AND DEBATE. THE PM REVIEWED THE PROGRESS MALAYSIA MADE UNDER THE SECOND MALAYSIA PLAN (1971-75) AND PRESENTED A DETAILED OUTLINE OF THE OBJECTIVES, STRATEGY AND SIZE OF THE TMP. HE ALSO DEVOTED CONSIDERABLE ATTENTION TO THE FINANCING OF THE PLAN, THE ROLE THE PRIVATE SECTOR WILL PLAY IN ITS FULFILLMENT AND THE NEED FOR AN EFFICIENT PUBLIC SECTOR TO IMPLEMENT THE PLAN. THE PM ESPECIALLY EMPHASIZED THAT THE TMP WAS DESIGNED TO BENEFIT ALL MALAYSIANS AND THAT THE POVERTY REDRESSAL PROGRAMS WILL BE AIMED AT THE POOR OF ALL RACES IN ALL SECTORS. END SUMMARY.

2. PROGRESS UNDER THE SECOND MALAYSIA PLAN (SMP). FOLLOWING UPBEAT INTRODUCTION IN WHICH HE STATED OVERRIDING OBJECTIVE OF TMP IS NATIONAL UNITY, PM HUSSEIN ONN REVIEWED ACHIEVEMENTS MADE UNDER SECOND MALAYSIA PLAN (SMP) 1971-75. PM POINTED OUT THAT DURING SMP PERIOD, THE MALAYSIAN ECONOMY GREW AT OVER 7 PERCENT PER

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ANNUM, PER CAPITA INCOME IMPROVED BY 3 PERCENT ANNUALLY AND

UNEMPLOYMENT DELINED FROM 7.4 PERCENT IN 1970 TO 7 PERCENT IN 1975. IN THE RURAL AREAS, OVER ONE MILLION ACRES OF NEW LAND WERE OPENED UP BY PUBLIC AGENCIES; 400,000 ACRES WERE REPLANTED WITH HIGH YIELDING RUBBER AND PINEAPPLE VARIETIES; MORE THAN 320,000 ACRES WERE PROVIDED WITH IRRIGATION FACILITIES (THUS PERMITTING AN ADDITIONAL 270,000 ACRES TO BE DOUBLE CROPPED), AND M\$800 MILLION WAS PROVIDED TO SMALLHOLDERS AND FISHERMEN IN THE FORM OF CREDIT AND SUBSIDIES. IN THE URBAN AREAS, 130,000 PUBLIC AND PRIVATE SECTOR JOBS WERE CREATED, AND OVER M\$900 MILLION WAS PROVIDED IN LOANS AND LOAN GUARANTEES FOR THE DEVELOPMENT OF MEDIUM AND SMALL SCALE INDUSTRIES AND BUSINESSES. IN ADDITION, SUBSTANTIAL INCREASES WERE REGISTERED IN PROVISION OF PIPED WATER AND ELECTRICITY, 260,000 NEW HOUSING UNITS WERE COMPLETED AND A LARGE NUMBER OF HEALTH CENTERS WERE OPENED. EDUCATIONAL OPPORTUNITIES WERE ALSO INCREASED WITH ENROLLMENT INCREMENTS OF 12.8 PERCENT AT THE PRIMARY LEVEL AND 60.2 PERCENT AT THE SECONDARY LEVEL. AT THE TERTIARY LEVEL, ENROLLMENTS ALMOST DOUBLED. PRESENTLY, 95 PERCENT OF ALL MALAYSIAN CHILDREN AT THE PRIMARY LEVEL AND OVER 60 PERCENT AT THE SECONDARY LEVEL ARE IN SCHOOL. THE INCIDENCE OF POVERTY DELINED FROM 59 TO 54 PERCENT IN THE RURAL SECTOR AND FROM 21 TO 19 PERCENT IN THE URBAN SECTOR. IN THE IMPORTANT AREA OF INCREASING BUMIPUTRA (ETHNIC MALAY) OWNERSHIP OF CORPORATE STOCK, PROGRESS WAS ALSO MADE WITH THE SHARE OF INDIVIDUAL MALAYS AND MALAY INTERESTS (STOCK HELD BY GOM AGENCIES) GROWING FROM 2.4 PERCENT IN 1970 TO 7.8 PERCENT IN 1975. THE PM NOTED THAT THIS WAS, HOWEVER, LESS THAN THE TARGET FIGURE OF 9 PERCENT IN THE SMP.

3. THE THIRD MALAYSIA PLAN (TMP). THE PM THEN OUTLINED THE OBJECTIVES, STRATEGY AND SIZE OF THE TMP. THE PLAN ENVISAGES A 50PERCENT INCREASE, IN REAL TERMS, IN GROSS DOMESTIC PRODUCT (GDP) BY 1980 WITH ANNUAL INCREASES OF 8.5 PERCENT IN GDP DURING THE PLAN PERIOD (UP FROM THE 7.4 PERCENT PER ANNUM ACHIEVED DURING THE SMP). TOTAL EXPENDITURES FOR INVESTMENT PURPOSES WILL REACH M\$44.2 BILLION (M\$1.00 EQUALS U.S.\$0.40) WITH THE PRIVATE SECTOR PROVIDING M\$26.8 BILLION (ABOUT 60 PERCENT) AND THE PUBLIC SECTOR THE REMAINING M\$18.6 BILLION.

4. AN INTEGRATED PROGRAM FOR RURAL DEVELOPMENT STRESSING LAND
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IMPROVEMENT, IRRIGATION, INFRASTRUCTURE IMPROVEMENT, THE SUPPLY OF CREDIT AND ESSENTIAL FARM INPUTS, IMPROVED SEED AND FERTILIZER, AND MARKETING AND BASIC SOCIAL SERVICES, INCLUDING HEALTH AND EDUCATION FACILITIES, WILL BE UNDERTAKEN TO IMPROVE THE STANDARD OF LIVING OF THE RURAL POOR. SOME 58 PERCENT OF THE M\$ 4.7 BILLION TO BE SPENT IN THE AGRICULTURAL SECTOR WILL GO DIRECTLY TOWARDS PROGRAMS DESIGNED TO IMPROVE THE PRODUCTIVITY AND HENCE THE INCOMES OF THE

RURAL POOR. FINALLY, ONE MILLION ACRES OF NEW LAND WILL BE OPENED UP, DEVELOPED AND SETTLED BY THE LANDLESS AND THOSE WITH UNECONOMIC-SIZED HOLDINGS.

5. INDUSTRIAL AND URBAN DEVELOPMENT EFFORTS WILL BE AIMED AT EXPANDING EMPLOYMENT AT A PACE SUFFICIENT TO ABSORB NOT ONLY THE INCREASING POPULATION IN THE URBAN AREAS BUT ALSO THE FLOW OF POPULATION FROM THE RURAL AREAS. TO MEET THIS GOAL, TARIFF PROTECTION WILL BE PROVIDED AND FISCAL INCENTIVES WILL BE GIVEN TO DEVELOP EFFICIENT LABOR INTENSIVE INDUSTRIES. THE GOM WILL ALSO DIRECTLY ASSIST THE DEVELOPMENT OF SMALL-SCALE ENTERPRISES AND PETTY TRADERS THROUGH THE PROVISION OF CREDIT, TECHNICAL EXPERTISE, EXTENSION SERVICES AND INFRASTRUCTURE FACILITIES. IN ADDITION, BOTH THE RURAL AND URBAN POOR WILL BENEFIT FROM THE PROVISION OF HOUSING AND OTHER SERVICES FOR THE LOWEST INCOME GROUPS. ROUGHLY M\$2.5 BILLION WILL BE SPENT ON LOW-INCOME HOUSING ALONE.

6. GREATER ATTENTION WILL BE GIVEN IN THE TMP PERIOD TO ACCELERATING THE DEVELOPMENT OF THE STATES OF PERLIS, KEDAH, KELANTAN, TRENGGANU, MELAKA, SABAH AND SARAWAK. THE MORE ADVANCED STATES WILL RECEIVE ALLOCATIONS TO ENABLE THEM TO CONSOLIDATE THE PROGRESS ALREADY MADE AND TO STEP UP THE IMPLEMENTATION OF PROGRAMS FOR THE POOR. THE PRODUCTIVE USE OF THE FUNDS TO BE PROVIDED TO THE STATE GOVERNMENTS, ESPECIALLY THOSE IN THE LESS DEVELOPED STATES, WILL REQUIRE SUBSTANTIAL INCREASES IN THEIR PLANNING AND IMPLEMENTATION CAPACITIES. GOM WILL ASSIST THE STATE GOVERNMENTS TO IMPROVE THEIR CAPABILITIES IN THESE AREAS.

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SAJ-01 TRSE-00 OMB-01 EB-07 /080 W

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INFO AMEMBASSY SINGAPORE
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7. OTHER TMP TARGETS INCLUDE: A) CREATION OF 743,000 NEW JOBS AND REDUCTION OF UNEMPLOYMENT RATE FROM PRESENT 7 PERCENT TO 6.1 PERCENT IN 1980; B) REDUCTION OF INCIDENCE OF POVERTY FROM CURRENT 44 PERCENT OF POPULACE TO 34 PERCENT IN 1980, WITH POVERTY IN RURAL AREAS DECREASING FROM 54 PERCENT TO 43 PERCENT AND IN THE URBAN AREAS FROM 19 TO 16 PERCENT; C) INCREASE MALAY EMPLOYMENT IN MODERN SECTORS, PARTICULARLY THE MANUFACTURING SECTOR; D) PROMOTE THE PARTICIPATION OF OTHER MALAYSIANS IN SECTORS WHERE THEY ARE UNDER REPRESENTED, PARTICULARLY IN AGRICULTURE AND SERVICES; AND E) INCREASE THE SHARE OF THE OWNERSHIP OF SHARE CAPITAL BY MALAYS AND OTHER INDIGENOUS PEOPLE. TO ACCOMPLISH THE LATTER GOAL, A BUMIPUTRA INVESTMENT FUND WILL BE SET UP TO ENABLE TO GOM TO SELECTIVELY ACQUIRE SHARES IN VIABLE ENTERPRISES TO BE HELD IN TRUST FOR BUMIPUTRAS. THE FUND WILL INITIALLY RECEIVE AN ALLOCATION OF M\$200 MILLION.

8. PM EMPHASIZED THAT TMP IS INTENDED TO BENEFIT ALL SEGMENTS OF MALAYSIAN SOCIETY. POVERTY PROGRAMS WILL BE DIRECTED AT POOR OF ALL RACES. EVEN PROGRAMS DESIGNED FOR THE MALAYS WILL ALSO GENERATE BENEFITS TO OTHER RACES AS THEY PARTICIPATE IN THE IMPLEMENTATION OF THESE PROJECTS AND ENTER INTO JOINT VENTURES WITH MALAYS.

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9. FINANCING OF THE PLAN. PM INDICATED THAT THE BULK OF FINANCING REQUIRED FOR TMP INVESTMENT EXPENDITURES CAN BE GENERATED DOMESTICALLY. OF M\$18.6 BILLION TO BE SPENT BY PUBLIC SECTOR, M\$11 BILLION WILL BE RAISED IN MALAYSIAN MARKET THROUGH NON-INFLATIONARY BORROWINGS. ONLY M\$5.8 BILLION WILL NEED TO BE GENERATED THROUGH FOREIGN MARKET AND PROJECT BORROWING. THIS AMOUNTS TO ABOUT U.S.\$460 MILLION PER YEAR DURING THE TMP PERIOD. THIS LEVEL OF FOREIGN BORROWING WILL RAISE MALAYSIA'S DEBT SERVICE LEVEL (FOREIGN DEBT AS A PERCENT OF EXPORT EARNINGS) FROM THE CURRENT 4 PERCENT TO 7 PERCENT BY 1980. THE PM POINTED OUT THAT THIS DEBT SERVICE LEVEL IS AMONG THE LOWEST IN EXISTENCE FOR COUNTRIES AT A SIMILAR LEVEL OF DEVELOPMENT. THE PM SINGLED OUT THE OPEC COUNTRIES, ESPECIALLY SAUDI ARABIA, KUWAIT AND THE UNITED ARAB EMIRATES FOR THE GROWING INTEREST THEY HAVE TAKEN IN MALAYSIA'S DEVELOPMENT EFFORTS.

10. ROLE OF THE PRIVATE SECTOR. THE PM EMPHASIZED THE CRUCIAL ROLE THE PRIVATE SECTOR IS EXPECTED TO PLAY IN THE TMP. HE

POINTED OUT THAT UNLIKE DURING THE SMP, THE PRIVATE SECTOR WILL BE CALLED UPON TO PROVIDE THE MAJOR SOURCE OF CAPITAL FORMATION DURING THE NEXT FIVE YEARS. THE PM PLEDGED THAT HIS ADMINISTRATION WILL GIVE HIGH PRIORITY TO MAINTAIN A FAVORABLE INVESTMENT CLIMATE IN MALAYSIA. HE NOTED THAT THE IMPLEMENTATION OF THE RESTRUCTURING PROGRAMS FOR MALAYS HAD GIVEN RISE TO UNCERTAINTIES IN THE PRIVATE SECTOR. TO REMOVE THESE UNCERTAINTIES, PM ENUNCIATED THE FOLLOWING BASIC PRINCIPLES WHICH UNDERLIKE GOM'S RESTRUCTURING POLICIES: A) PRESENT IMBALANCES IN EQUITY OWNERSHIP WILL MAINLY BE CORRECTED THROUGH GROWTH; DISINVESTMENT OF EXISTING STOCK WILL NOT BE ENFORCED FOR THIS PURPOSE; B) A MUTUALLY ACCEPTABLE MEASUREMENT OF GROWTH WILL BE DEVELOPED IN CONSULTATION WITH THE PRIVATE SECTOR; C) THE 1990 RACIAL PATTERN OF OWNERSHIP SOUGHT BY THE NEW ECONOMIC POLICY (NEP) IS A GLOBAL TARGET AND WILL NOT NECESSARILY BE APPLIED AT THE LEVEL OF INDIVIDUAL ENTERPRISES IN THE ECONOMY; D) THE GOM CONTINUES TO BE PREPARED TO ALLOW FOREIGN MAJORITY CONTROL FOR ENTERPRISES IN SECTORS LIKE MANUFACTURING WHERE FOREIGN TECHNOLOGY, MANAGEMENT EXPERTISE, AND CAPITAL ARE REQUIRED FOR GROWTH; E) THE 1990 NEP OWNERSHIP TARGETS ARE TO BE ACHIEVED BY STEADY PROGRESS EXCEPT IN THE CASE OF A NUMBER OF SPECIFIED INDUSTRIES (INCLUDING THE EXTRA-UNCLASSIFIED

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ACTIVE AND RESOURCE BASED INDUSTRIES) FOR WHICH IMMEDIATE CONFORMANCE WILL BE REQUIRED; AND F) THE NEP EMPLOYMENT TARGETS FOR MALAYS WILL BE ENFORCED PRAGMATICALLY AND WHERE THERE IS EVIDENCE THAT THESE TARGETS ARE NOT IMMEDIATELY FEASIBLE, THE REQUIREMENTS WILL BE RELAXED SUBJECT TO AN UNDERTAKING THAT FULLER PARTICIPATION WILL BE PROVIDED FOR AT THE EARLIEST OPPORTUNITY.

11. PLAN IMPLEMENTATION. THE PM STRESSED THE NEED FOR A HIGH LEVEL OF EFFICIENCY AND EFFECTIVENESS IN THE OPERATION OF THE GOM'S ADMINISTRATIVE MACHINERY IN IMPLEMENTING THE PLAN. FOR THAT REASON, A NUMBER OF IMPROVEMENTS WILL BE INTRODUCED. REGIONAL OFFICES OF THE FEDERAL ECONOMIC PLANNING UNIT WILL BE SET UP TO WORK WITH THE STATE PLANNING UNITS TO STEP UP THE IDENTIFICATION AND PREPARATION OF PROJECTS. THE ACTIVITIES OF PUBLIC CORPORATIONS WILL ALSO BE CLOSELY MONITORED TO ENSURE HIGH STANDARDS OF EFFICIENCY AND PUBLIC ACCOUNTABILITY. TO HELP IN THIS REGARD, INDEPENDENT MANAGEMENT AUDITS WILL BE INSTITUTED AND THE NEED FOR REGULAR AND TIMELY FINANCIAL AUDITS WILL BE ENFORCED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, INDUSTRIAL DEVELOPMENT, AGRICULTURAL DEVELOPMENT, EDUCATION, ECONOMIC PROGRAMS, INVESTMENT PROGRAMS, RURAL AREAS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KUALA04176
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760280-0290
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760738/aaaabgnz.tel
Line Count: 272
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 KUALA LUMPUR 3985
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <06 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER PRESENTS THIRD MALAYSIA PLAN TO PARLIAMENT
TAGS: ECON, EINV, EGEN, EAGR, MY, (HUSSEIN ONN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006